National Research Council Canada

Statement outlining results, risks and significant changes in operations, personnel and programs

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1. Introduction

The Government of Canada uses financial information to support decision making, for policy development, for service delivery and for historical reference. These financial statements have been prepared to respond to these requirements. This Departmental Quarterly Financial Report (QFR) reflects the results of the current fiscal period in relation to the Main Estimates and Supplementary Estimates (A). The QFR should be read in conjunction with the Main Estimates, Supplementary Estimates (A) as well as Canada's Economic Action Plan (Budget 2012, Budget 2013, Budget 2014 and Budget 2015). They have been prepared by management as required by section 65.1 of the *Financial Administration Act (R.S.C., 1985, c. F-11)* and in the form and manner prescribed by the Treasury Board of Canada Secretariat. Although these statements have not been subject to an external audit or review, the National Research Council Canada (NRC) attests that they are an accurate and true reflection of the financial position for the period ending June 30, 2015.

1.1 NRC Mandate

The NRC exists under the *National Research Council Act (R.S.C., 1985, c. N-15)* and is a Departmental corporation named in Schedule II of the *Financial Administration Act (R.S.C., 1985, c. F-11)*. The mission of the NRC is to work with clients and partners to provide innovation support, strategic research, and scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

Under the *National Research Council Act (R.S.C., 1985, c. N-15)*, the NRC is responsible for:

- Undertaking, assisting or promoting scientific and industrial research in fields of importance to Canada;
- industrial communities;
- Investigating standards and methods of measurement;
- Working on the standardization and certification of scientific and technical apparatus, instruments and materials used or usable by Canadian industry;
- Operating and administering any astronomical observatories established or maintained by the Government of Canada;
- Establishing, operating and maintaining a national science library; and
- Publishing and selling or otherwise distributing such scientific and technical information as the Council deems necessary.

Further details on the NRC's legislative framework, authority, mandate and program activities can be found in Part II of the Main Estimates and the Report on Plans and Priorities.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the NRC's spending authorities granted by Parliament and those used by the NRC consistent with the Main Estimates and Supplementary Estimates (A) for 2015-16. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use for spending authorities.

The authority of Parliament is required before moneys can be spent by the Government of Canada. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes (pursuant to paragraph 5(1)(e) of the *National Research Council Act (R.S.C., 1985, c. N-15)*, the NRC has authority to expend revenues it has received through the conduct of its operations).

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act (R.S.C., 1985, c. F-11)* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government of Canada to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The NRC uses the full accrual method of accounting to prepare and present its annual departmental financial statements which are part of the Departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.The NRC uses the full accrual method of accounting to prepare and present its annual departmental financial statements which are part of the Departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

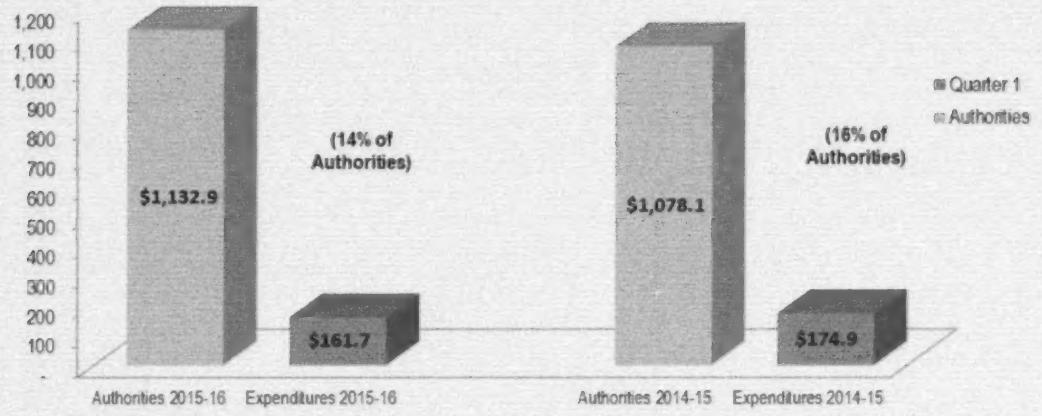
2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) results

This section highlights the items that contributed most significantly to the changes in budgetary authorities for the current fiscal year and to the actual expenditures for the quarter that ended on June 30, 2015 compared with the previous fiscal year. This section should be read in conjunction with the NRC's tables entitled Statement of Authorities and Departmental budgetary expenditures by Standard Object found on the last 2 pages of this report.

2.1 Authorities and Expenditures

The following graph provides a comparison of the budgetary authorities and expenditures as of June 30, 2015 and those as of June 30, 2014.

Comparison of Budgetary Authorities and Expenditures as of June 30, 2015 and June 30, 2014
(in millions of dollars)



As shown in the graph above, the NRC's expenditures totalled $161.7M during the first quarter of 2015-16 which represents a decrease of $13.2M over the first quarter of 2014-15. Lower expenditures are mainly attributable to the combined decrease of $6.7M in operating and statutory revenue expenditures as well as a decrease of $4.7M in Grants and Contributions. Refer to 2.3 Significant Changes to Budgetary Expenditures for additional details.

2.2 Significant Changes to Authorities

As of June 30, 2015, the authorities were $1,132.9M, representing an increase of $54.8M (5%) in comparison to the 2014-15 authorities of the same period. The following table summarizes the significant changes to NRC authorities:

Significant Changes to Authorities *(unaudited)*
For the year ending March 31, 2016 - As of June 30, 2015
(in millions of dollars)

	Vote 1 Operating	Vote 5 Capital	Vote 10 Grants & Contributions	Statutory Revenues	Contributions to EBP	Total
Authorities – Total available for use for the year ending March 31, 2015 - As of June 30, 2014						1,078.1
Federal Infrastructure	0.1	25.6				25.7
Collective bargaining	18.5				3.7	22.2
Thirty Meter Telescope Observatory (Budget 2015)			21.7			21.7
Genomics R&D Initiative	8.0				0.4	8.4
Canada Accelerator and Incubator Program (Budget 2013 and Budget 2014)	0.1		6.4			6.5
Statutory Revenue adjustment				(22.3)		(22.3)
Statutory Revenue Carry Forward adjustment				(9.2)		(9.2)
Support R&D by small and medium sized firms (IRAP)	(5.5)		5.5			-
Other	1.2		(0.8)		1.4	1.8
Total increase (decrease) in authorities in comparison to prior year	22.4	25.6	32.8	(31.5)	5.5	54.8
Authorities – Total available for use for the year ending March 31, 2016 - As of June 30, 2015						1,132.9

The increase of $54.8M in authorities is explained by the following items.

- An increase of $25.7M for the Federal Infrastructure initiative including $23.7M to build or renew nine infrastructure projects at various locations across Canada and $2M to build and upgrade facilities for the development of advanced manufacturing technologies and processes such as new composites, nanotechnology, new design methods or simulation techniques;
- An increase of $22.2M related to the ratifications of several collective agreements;
- An increase of $21.7M for the Thirty Meter Telescope Observatory, as announced in Budget 2015, for the construction and commissioning of the International Thirty Meter Telescope Observatory. This telescope will be built on the Mauna Kea, a dormant volcano in Hawaii and will be one of the world's most powerful telescopes. Various science-based organizations from Canada, China, India, Japan and universities in the United States will invest in this partnership project;
- An increase of $8.4M for the Genomics Research and Development Initiative which coordinates federal science departments and agencies in the field of genomics research. Its strategic goal is to contribute solutions to issues that are important to Canadians, focusing on the role of federal government research;
- An increase of $6.5M for Canada Accelerator and Incubator Program, announced in Budget 2013 and Budget 2014, which is designed to help small and medium-sized enterprises access

research and business development services at universities, colleges and other non-profit research institutions of their choice;

- A net increase of $1.8M for various items; offset by
- A decrease of $22.3M in estimated statutory revenue for the current fiscal year due to the effects of 2014 cyber intrusion;
- A decrease of $9.2M in statutory revenue carry-forward for use in subsequent years following the close of fiscal year 2014-15, due to investment in NRC's capital infrastructure in support of R&D initiatives to develop innovative technologies for industry.

2.3 Significant Changes to Budgetary Expenditures

This section should be read in conjunction with the NRC's tables entitled Statement of Authorities and Departmental budgetary expenditures by Standard Object both located at the end of this report.

2.3.1 Variances in Year-to-date Expenditures

As of June 30, 2015, year-to-date expenditures were $161.7M, representing a decrease of $13.2M (8%) in comparison to the 2014-15 expenditures of the same period. The decrease is mostly attributable to the following items:

- Combined operating expenditures and statutory revenue expenditure decreased by $6.7M compared with the same period of the previous fiscal year. This change is mainly attributable to a decrease of $11.5M in other subsidies and payments for the 2014-15 transition payment for implementing salary payments in arrears by the Government of Canada offset by an increase of $4.2M for the 2014-15 ratifications of several collective agreements.
- Transfer payments consisting of Grants & Contributions (G&C) expenditures decreased by $4.7M compared with the same period in the previous year. This change is principally attributable to a timing difference of contribution payments to TRIUMF of $6.8M offset by an increase in contributions for the Youth Employment Strategy of $1.7M.

3. Risks and Uncertainties

Risk management priorities for NRC looking into FY2015-16 will continue to focus on managing the effects of the 2014 cyber intrusion through successful implementation of a secure environment, and regaining momentum in delivering R&D projects to clients and stakeholders. More specifically, progress in addressing selected external facing key risks and related actions in Q1 include:

1. **Effective Implementation of Secure NRC Initiative:** A new Departmental Security Officer position and Security Branch were established in Q4 of FY2014-15. New directives and policies are being implemented with related security training for all employees to operate in the new Secure NRC environment. This will help ensure that proper practices and controls are in place to safeguard NRC's systems, data and applications.

2. **Global Disruption:** NRC Council will be part of a discussion planned in Q2 on key strategic risks and opportunities towards determining suitable future directions for NRC.

3. **Delivery of Results for Clients & Canada:** Active communities of practice are in place for Project Managers, Portfolio Operational Directors, R&D program leads and R&D Directors to better address challenges and enable collaboration. A project management framework has been developed and is ready for implementation . The first 3-year R&D program reviews have been completed for review by the Senior Executive Committee's (SEC) with decisions to be taken on programs future direction. Quarterly reporting on R&D programs has also been implemented. The Client Relationship Management (CRM) system previously shut down as a result of the cyber intrusion is back online.

With the progress made in these areas, it is anticipated that NRC will have access to timely and relevant data to support management decisions. The Secure NRC project will also help alleviate future potential business disruptions.

4. Significant changes in relation to operations, personnel and programs

Apart from the progress made on the number of NRC IT systems and data brought back online post cyber intrusion in the new Secure NRC environment, no significant changes to programs and operations are noted.

Approved by Senior Officials
Approved by:

John R. McDougall, P.Eng.
President

Michel A. Piché, M.P.A., CPA, CMA, CIA
Vice-President, Corporate Management
and Chief Financial Officer

Ottawa, Canada
August 28, 2015

Statement of Authorities (unaudited)
For the quarter ended June 30, 2015

	Fiscal Year 2015-16 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2016 *	Used during the quarter ended June 30, 2015	Year to date used at quarter-end
Vote 1 - Operating expenditures	396,982	71,513	71,513
Vote 5 - Capital expenditures	56,303	1,871	1,871
Vote 10 - Grants and contributions	307,659	36,901	36,901
Statutory revenue **	322,535	40,863	40,863
Statutory EBP	49,427	10,551	10,551
Total Budgetary authorities	1,132,906	161,699	161,699

	Fiscal Year 2014-15 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2015 *	Used during the quarter ended June 30, 2014***	Year to date used at quarter-end ***
Vote 1 - Operating expenditures	374,599	119,092	119,092
Vote 5 - Capital expenditures	30,742	3,205	3,205
Vote 10 - Grants and contributions	274,891	41,605	41,605
Statutory revenue **	354,010	-	-
Statutory EBP	43,901	10,975	10,975
Total Budgetary authorities	1,078,143	174,877	174,877

** Includes only Authorities available for use and granted by Parliament at quarter-end.*

*** Includes Statutory Revenue available for use in future years pursuant to paragraph 5(1)(e) of the National Research Council Act (R.S.C., 1985, c. N-15).*

**** Totals used during the quarter and used at quarter-end have been increased by $2,379 thousand. All authorities with the exception of Grants and contributions and Statutory EBP have been restated to reflect current year presentation basis.*

Departmental budgetary expenditures by Standard Object (unaudited)
For the quarter ended June 30, 2015

	Fiscal Year 2015-2016 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2016	Expended during the quarter ended June 30, 2015	Year to date used at quarter-end
Expenditures:			
Personnel	464,590	94,156	94,156
Transportation and communications	20,490	2,676	2,676
Information	2,030	336	336
Professional and special services	85,480	7,655	7,655
Rentals	9,359	1,814	1,814
Purchased repair and maintenance	27,616	3,577	3,577
Utilities, materials and supplies	65,151	5,691	5,691
Acquisition of land, buildings and works	31,227	1,393	1,393
Acquisition of machinery and equipment	91,710	5,084	5,084
Transfer payments	307,659	36,901	36,901
Other subsidies and payments	27,585	2,414	2,414
Total net budgetary expenditures	1,132,906	161,699	161,699

	Fiscal Year 2014-2015 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2015	Expended during the quarter ended June 30, 2014 *	Year to date used at quarter-end *
Expenditures:			
Personnel	425,071	92,716	92,716
Transportation and communications	24,705	2,699	2,699
Information	3,445	273	273
Professional and special services	104,798	6,819	6,819
Rentals	8,445	2,204	2,204
Purchased repair and maintenance	37,009	2,647	2,647
Utilities, materials and supplies	148,682	5,516	5,516
Acquisition of land, buildings and works	-	1,441	1,441
Acquisition of machinery and equipment	20,782	4,490	4,490
Transfer payments	274,891	41,605	41,605
Other subsidies and payments	30,215	14,267	14,267
Total net budgetary expenditures	1,078,143	174,877	174,877

** Totals used during the quarter and used at quarter-end have been increased by $2,379 thousand. All expenditures by standard object with the exception of Transfer payments have been restated to reflect current year presentation basis.*